

GAO

Report to the Ranking Minority
Member, Subcommittee on Military
Readiness, Committee on Armed
Services, House of Representatives

July 2003

DEFENSE MANAGEMENT

DOD Faces Challenges Implementing Its Core Competency Approach and A-76 Competitions



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Highlights

Highlights of [GAO-03-818](#), a report to the Ranking Minority Member, Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives

Why GAO Did This Study

The Department of Defense (DOD) is pursuing a new initiative involving a core competency approach for making sourcing decisions—that is, sourcing decisions based on whether the function is core to the agency's warfighting mission. In determining how to best perform non-core functions, DOD's position is that its components should look beyond just the use of public-private competitions under Office of Management and Budget (OMB) Circular A-76 in making sourcing decisions, and consider other alternatives such as partnering or employee stock ownership. GAO was asked to assess (1) the department's progress in assessing its core functions as a basis for sourcing decisions, (2) the plans and progress DOD has made in identifying and implementing alternatives to A-76, and (3) the current status of DOD's A-76 program.

What GAO Recommends

GAO is recommending that DOD clarify its expectations for sourcing decisions based on core competency assessment results and provide guidance on additional factors that should be considered in reaching a sourcing decision; and ensure that conversion of functions from performance by military to government civilian or contractor personnel have clearly identified sources of funding to support those decisions. The department generally concurred with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-03-818.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry W. Holman at (202) 512-8412 or holmanb@gao.gov.

DEFENSE MANAGEMENT

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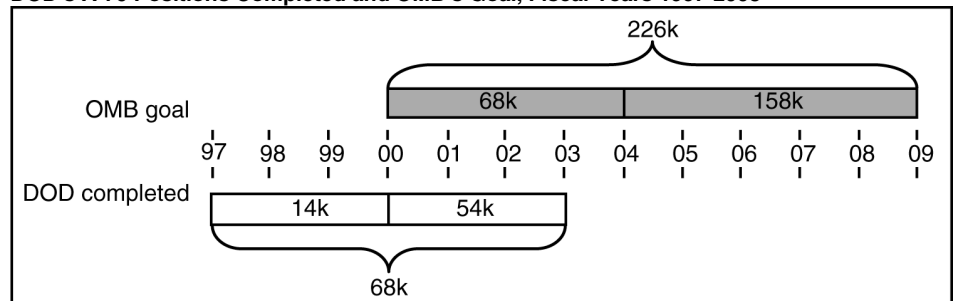
What GAO Found

Progress in assessing core functions has been varied and limited across major Defense components, affected somewhat by ambiguous definitions of the term "core function." In some instances additional guidance was obtained, but definitions of core remain somewhat broad and subjective, and will likely remain so in the future. Army and Air Force have led within DOD in assessing core functions, but the Army has done the most, and found, contrary to its expectations, that distinguishing between core and non-core functions does not, by itself, prescribe a sourcing decision. Other factors must also be considered such as risk and operational considerations.

The range of alternatives to A-76 likely to be pursued under the core competency-based approach is not yet clear, but DOD has made some progress toward identifying and/or using some alternatives through pilot projects and other efforts by the services as they have focused on the core initiative. However, the use of alternatives could be limited without special legislative authorities and/or repeal of various existing prohibitions, and some could be tempered by the department's efforts to meet the A-76 competitive sourcing goals set by OMB.

DOD reported that as of June 1, 2003, it has met OMB's short-term goal to use the A-76 process to study 15 percent of the positions identified in DOD's commercial activities inventory by the end of fiscal year 2003. However, meeting the longer-term goal to study at least 50 percent (226,000) of its nearly 453,000 commercial activity positions through fiscal year 2008 will present a challenge. This is nearly double the number of positions that DOD has previously studied during a comparable time period, and providing sufficient resources (financial and technical) to complete the studies may prove challenging. Also, the defense components, particularly the Air Force, plan to transfer certain military personnel into warfighting functions and replace them with government civilian and/or contractor personnel. This will require the components to reprioritize their funding for operation and maintenance accounts, because it is from those accounts the services must fund replacement civilian or contractor personnel.

DOD's A-76 Positions Completed and OMB's Goal, Fiscal Years 1997-2008



Source: GAO analysis of data provided by DOD.

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Abbreviations

AMC	U.S. Army Materiel Command
CAMIS	Commercial Activities Management Information System
CINC	commander-in-chief
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DOD	Department of Defense
ESOP	Employee Stock Ownership Plans
FAIR	Federal Activities Inventory Reform Act
NSA	National Security Agency
OMB	Office of Management and Budget
TBC	Transitional Benefit Corporations

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United States General Accounting Office
Washington, DC 20548

July 15, 2003

The Honorable Solomon P. Ortiz
Ranking Minority Member
Subcommittee on Military Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Ortiz:

The Department of Defense (DOD) is currently examining a core competency-based approach for making sourcing decisions—that is, the decision to use a public or private sector source to perform a necessary agency function or activity based on whether the function or activity is core to the agency’s mission.¹ This is one of the business transformation initiatives that have been endorsed by one of DOD’s high-level management committees, the Senior Executive Council.² It believes that the department should focus its energies and talents on those functions that are core or directly linked to its warfighting mission, and which must be performed by the agency, with the expectation that necessary products or services associated with non-core functions should be obtained from other government agencies or the private sector.

In determining how to best perform non-core functions, DOD’s position is that its components should look beyond just the use of Office of Management and Budget (OMB) *Circular A-76*, with its focus on public-private competitions, in making sourcing decisions. It has expressed interest in examining the use of other alternatives, such as public-private partnering, transferring functions to other agencies, employee stock ownerships, and quasi-government corporations. Nevertheless, *Circular A-76* remains an important tool for making sourcing decisions for non-inherently governmental functions typically

¹ Throughout this report, we use the terms “activities” and “functions” interchangeably.

² The Senior Executive Council is a high-level management committee established in 2001 to (1) help guide efforts across the department to transform and improve the department’s business practices, and (2) to function as a board of directors for DOD. The Council is chaired by the Secretary of Defense and is comprised of the Deputy Secretary of Defense, the service secretaries, and the Under Secretary of Defense for Acquisition, Technology and Logistics.

involving commercially available services. Also, A-76 competitive sourcing is a major initiative under the President's Management Agenda³ and OMB has set ambitious goals for those competitions.

At your request, we examined DOD's plans for sourcing non-core functions and the effect this may have on its A-76 program. Accordingly, we assessed (1) the department's progress in assessing its core functions as a basis for sourcing decisions, (2) the plans and progress DOD has made in identifying and implementing alternatives to A-76, and (3) the current status of DOD's A-76 program.

In performing work for this review, we obtained and analyzed plans available from DOD and its components for assessing non-core functions and identifying alternate sourcing approaches, and reviewed relevant documents from DOD agencies. We met with officials from the Office of the Secretary of Defense, the Army, the Navy, the Air Force, the Marine Corps, the Defense Logistics Agency, and other organizations to obtain information on their sourcing programs and efforts to identify alternative sourcing options. The A-76 data used in this report are derived from a Web-based DOD commercial activities database; we did not validate the information in this database. Further details on our scope and methodology are included at the end of this report.

Results in Brief

Progress in assessing core functions has been varied and limited across major Defense components⁴ and has been challenging. Multiple and somewhat ambiguous definitions of what constitutes a core function have made it difficult for the components to easily employ the core competency-based approach to decision making. As a result, some components have sought additional guidance and/or applied their own criteria to identify core functions. Even then, much guidance

³ Executive Office of the President, Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002*. The report can be found at www.whitehouse.gov/omb/budget. The President's Management Agenda, announced in the summer of 2001, is a strategy for improving the management of the federal government. It focuses on five areas of management weakness across the government where improvements and the most progress can be made. In addition to competitive sourcing, the President's Management Agenda includes an emphasis on strategic management of human capital, improved financial performance, expanded electronic government, and budget and performance integration.

⁴ Defense components refer to the military services and Defense agencies.

remained somewhat broad in nature and subjective, and will likely remain so in the future. The Army has made the most progress to identify core and non-core functions, having completed core competency determinations for over 200,000 positions, but has had to deal with numerous appeals to its initial core determinations. The Air Force has recently completed a more limited effort, focusing predominately on military positions. As a result of its core competency-based effort, the Air Force identified over 17,000 military positions and almost 9,000 civilian positions it believes are non-core. The Navy and Marine Corps are in the early stages of determining their core functions. The Defense Logistics Agency broadly identified its core and non-core competencies, but has not identified specific positions as core or non-core. Meanwhile, through its efforts to operationalize the core competency-based approach, the Army discovered that the utility of identifying core functions for the purpose of making sourcing decisions can have its limitations. More specifically, contrary to its original expectations, the Army found that distinguishing between core and non-core functions may not, by itself, prescribe a sourcing decision. Once it has been determined that a function is not core to an agency's mission, other factors that are not currently covered in DOD's guidance must also be considered, such as risk and operational considerations. As a result, this creates some uncertainty regarding how and to what extent the Army will use the results of the core analyses and potentially has implications for other Defense components as well.

The magnitude of alternate sourcing arrangements that DOD will pursue under the core competency-based approach is not yet clear, based on limitations in core assessments conducted to date and due to legal and other constraints that could impact use of alternate arrangements. Even so, DOD has made some progress toward identifying and using some sourcing arrangements that are alternatives to A-76, including some identified as part of an initiative to identify alternatives through use of pilot projects,⁵ and a few others that have been identified by the services as they have focused on the core initiative. For example, in an effort to stimulate consideration of alternatives, DOD tasked each of its components with identifying at least one non-core competency pilot project and developing plans to transition the affected functions out of DOD using alternatives to A-76 competition. Six pilot projects have been approved and are in varying stages of implementation. They range from divestiture to partnering with municipalities for services, with the latter

⁵ Officially referred to as pioneer projects.

expected to be used as a model for more widespread implementation. Beyond those six pilot projects, department officials told us about two additional projects under way that would transfer certain functions to other agencies. At the same time, various officials told us that legislative restrictions—such as those that restrict outsourcing—and OMB’s emphasis on competitive sourcing under A-76 could impact the extent to which alternatives are used.

While the department continues to examine the potential for implementing its core concept and alternative sourcing plans, it is also actively maintaining an A-76 competitive sourcing program. This is largely due to the emphasis on competitive sourcing in the President’s Management Agenda and the A-76 goals set by OMB. Building on its ongoing A-76 program, DOD reported that as of June 1, 2003, it has met OMB’s short-term goal to study 15 percent of the positions that the department identified in its year 2000 commercial activities inventory by the end of fiscal year 2003. Meeting the longer-term goal of studying at least 50 percent of its nearly 453,000 commercial activity positions⁶ through fiscal year 2008 could present a challenge because the goal requires studying far more positions—nearly double—than DOD has previously studied under a comparable time period. If the history of DOD’s A-76 program is a guide, the department could face other challenges associated with studying such sizeable numbers of positions. These challenges include providing sufficient time and resources to complete the studies, and encountering difficulties in identifying and grouping positions for study. Another challenge to completing OMB’s A-76 goals involves the defense components’ plans, particularly the Air Force, to convert a sizeable number of military positions to performance by government civilian or contractor personnel, either as a result of the core-competency process or through A-76 studies. Although precise numbers are not available for each of the components, the services have indicated they plan to use such conversions to transfer the affected military personnel and their slots to fill other priorities, rather than reduce authorized military end-strength. To do so will require the services to reprioritize their funding for operation and maintenance accounts, because it is from those

⁶ This goal is based on DOD’s inventory of commercial activities reported in 2000; the numbers vary by year.

accounts the services must fund replacement civilian or contractor personnel.⁷

This report contains recommendations for additional guidance in making sourcing decisions based on core assessments and to ensure conversion of functions from performance by military to civilian or contractor personnel are accompanied by identified sources of funding to support those decisions. In commenting on a draft of this report, the department generally concurred with our recommendations.

Background

Since 1955, the executive branch has encouraged federal agencies to obtain commercially available goods and services from the private sector when the agencies determined that such action was cost-effective. OMB formalized the policy in its *Circular A-76*, issued in 1966. In 1979, OMB supplemented the circular with a handbook that included procedures for competitively determining whether commercial activities should be performed in-house, by another federal agency through an Interservice Support Agreement, or by the private sector. OMB has updated this handbook three times since 1979. An extensive revision to *Circular A-76* was issued on May 29, 2003, based in part on the recent work of the congressionally mandated Commercial Activities Panel.⁸

Under the newly revised circular, agencies may convert commercial activities to or from contractor performance through a public-private competition, whereby the estimated cost of public or private performance of the function is evaluated against published selection criteria in accordance with the principles and procedures outlined in the circular.⁹

⁷ The costs of military positions are funded through military personnel appropriation accounts, whereas costs associated with government civilian or contractor personnel are funded through operation and maintenance appropriation accounts.

⁸ The Panel, mandated by section 832 of the Defense Authorization Act for fiscal year 2001, required the Comptroller General to convene a panel of experts to study the process used by the federal government to make sourcing decisions. After a yearlong study, the Panel published its report in April 2002. See Commercial Activities Panel, *Improving the Sourcing Decisions of the Government: Final Report*, (Washington, D.C.: Apr. 30, 2002). The report can be found on GAO's Web site at <http://www.gao.gov> under the Commercial Activities Panel heading.

⁹ The current revision to the circular replaces the use of direct conversion with a requirement to compete all non inherently governmental functions. In addition, the revised circular provides for a streamlined cost comparison for 65 or fewer civilian positions in addition to standard competitions.

As part of this process, the government identifies the work to be performed in a “performance work statement,” prepares an in-house offer which includes its most efficient organization, and compares all the offers against each other and the selection criteria. The revised circular provides several alternative procedures for conducting source selections, only one of which allow agencies to select a contract based on other than the lowest cost technically acceptable offer.¹⁰ The four source selection alternatives are: sealed bid, lowest price technically acceptable, phased evaluation, and, in certain cases, trade-off (which permits agencies to weigh cost and non-cost factors).

Administrative and legislative constraints from the late 1980s through 1995 resulted in a lull—and even a moratorium—on awarding contracts resulting from A-76 competitions. In 1995, congressional and administration initiatives placed more emphasis on A-76 as a means of achieving greater economies and efficiencies in operations. Beginning about 1995, DOD began to give renewed emphasis to the use of A-76 competitive sourcing under *Circular A-76*. More recently, competitive sourcing has received governmentwide attention, as one of five initiatives of the President’s Management Agenda for fiscal year 2002. DOD has been a leader among federal agencies in using A-76 in recent years.

The revised circular requires agencies to prepare two annual inventories that categorize all activities performed by government personnel as either commercial or inherently governmental.¹¹ A similar requirement was included in the 1998 Federal Activities Inventory Reform (FAIR) Act,¹² which directs agencies to develop annual inventories of their positions that are not inherently governmental. DOD’s 2000 FAIR Act inventory identified nearly 453,000 in-house civilian positions engaged in a variety of commercial activities, nearly 260,000 of which have been, or are, subject

¹⁰ DOD has submitted a legislative proposal for inclusion in the National Defense Authorization Bill for Fiscal Year 2004, a request to eliminate the existing requirement that the department base its competitive sourcing decisions on cost. This would allow DOD to consider quality as well as cost when making sourcing decisions.

¹¹ OMB Circular A-76 defines an inherently governmental function as one that requires either the exercise of substantial discretion in applying government authority or the making of value judgments in making decisions for the government. Positions deemed inherently governmental are not subject to the A-76 program.

¹² Section 5 of P.L. 105-270, 31 U.S.C. 501 note (1998), on the other hand, defines an inherently governmental function as a “function that is so intimately related to the public interest as to require performance by Federal Government employees.”

to competition or direct conversion under *Circular A-76*. The number of positions subject to A-76 is less than the total number of positions in commercial activities because DOD made adjustments to exclude certain commercial activities from being considered eligible for competition; they included such reasons as statutory, national security, or operational considerations. Under the President's Management Agenda, OMB has directed agencies to directly convert or compete through cost comparison studies 15 percent of their total fiscal year 2000 inventories of commercial activities by the end of fiscal year 2003, with the ultimate goal of competing at least 50 percent of their inventories by the end of fiscal year 2008.

In providing guidance for determining whether activities and functions, and associated positions are considered to be inherently governmental in nature, DOD has sometimes equated the term "inherently governmental" with the somewhat parallel term "core."¹³ While use of the term "core" is associated with the private sector, DOD has sometimes used the term to designate military and civilian essential positions required for military and national security reasons. The old *A-76 Handbook* provided yet another, but similar, meaning for core. In the context of A-76, core capability was defined as "a commercial activity operated by a cadre of highly skilled employees, in a specialized technical or scientific development area to ensure that a minimum capability is maintained."

The concept of core in DOD has also been associated with legislative requirements to establish core logistics capabilities in government-owned military maintenance depots. This process is based on a requirement contained in 10 U.S.C. 2464 to identify and maintain within government-owned and -operated facilities a core logistics capability including the equipment, personnel, and technical competence required to maintain weapon systems identified as necessary for national defense emergencies and contingencies. Regardless of usage, determinations of core and inherently governmental functions within DOD have often been viewed as somewhat subjective in nature.

The term "core function" recently has gained increased and more expanded use within DOD, beginning with DOD's publication of its September 2001 *Quadrennial Defense Review Report*, which

¹³ As noted in subsequent discussion, the terms are not always interchangeable.

recommended the identification of core and non-core functions.¹⁴

According to the report, “only those functions that must be performed by DOD should be kept by DOD. Any function that can be provided by the private sector is not a core government function.” The test to separate core and non-core functions would be to determine whether a function is directly necessary for warfighting, according to the report.

Further emphasis on assessing core functions subsequently came from DOD’s Senior Executive Council,¹⁵ which, in April 2002, launched a departmentwide effort to distinguish between core and non-core functions with an emphasis on retaining in-house only those functions deemed core to the warfighting mission. Under this approach, it tasked the defense components with developing plans to transition non-core functions to alternative sourcing arrangements or A-76 studies, if appropriate, as soon as possible. In advocating the use of alternatives, the Senior Executive Council noted that A-76 cost comparisons were lengthy, expensive, and hard on the workforce. Examples of alternate sourcing strategies cited by the Council included public-private partnering, employee stock ownership, and quasi-governmental organizations. Details about these and other alternatives can be found at appendix I. While use of A-76 studies was still permitted, emphasis was expected to be given to identifying alternate sourcing approaches that might be used to transfer non-core functions out of the department.

Much publicity to this new core emphasis surrounded Army’s efforts under its program, which it designated as “the Third Wave.” The term “Third Wave” was used to distinguish this current effort from two previous sourcing efforts under A-76, the first occurring largely in the 1980s and the second beginning in the 1996-97 time period. Unlike the earlier two waves, which focused on A-76 studies of about 25,000 and 33,000 positions respectively, the scope of the Third Wave was to be significantly larger, potentially involving over 200,000 positions. This was of significant concern to government employees after several years of A-76 study efforts within DOD. The Army’s program also received much public attention

¹⁴ U.S. Department of Defense, *Quadrennial Defense Review Report* (Sept. 30, 2001).

¹⁵ The Senior Executive Council is a high-level management committee established in 2001 to (1) help guide efforts across the department to transform and improve the department’s business practices, and (2) to function as a board of directors for DOD. The Council is chaired by the Secretary of Defense and is comprised of the Deputy Secretary of Defense, the service secretaries, and the Under Secretary of Defense for Acquisition, Technology and Logistics.

because of what Army officials have characterized as an unrelated, but parallel, effort to have a contractor (RAND) study options for rethinking governance of the Army's arsenals and manufacturing plants.¹⁶ The Army has subsequently indicated it does not plan to pursue the options outlined in that study which ranged from privatization to creation of a federal government corporation to operate these facilities. On March 24, 2003, the Secretary of the Army directed that other action plans be developed to deal with these facilities. (See app. II for a summary of the actions directed.)

Progress in Assessing Core Functions Has Varied Across the Defense Components and Has Been Affected Somewhat by Definitions of "Core"

Progress in assessing core functions has been varied and limited across the major Defense components, and affected by somewhat ambiguous and subjective definitions of what constitutes a "core function." These multiple and somewhat ambiguous definitions of what is a "core function" have made it difficult for the components to easily employ the core competency approach to decision-making, and some DOD components have sought additional guidance and/or applied their own criteria to identify core functions. Even so, progress in assessing core functions has varied across the components, with the Army and the Air Force having made the most progress in their efforts. In addition, the Army, which has devoted the greatest attention to assessing core functions, has found that distinguishing between core and non-core functions, by itself, has limited value because that distinction alone does not necessarily prescribe a sourcing decision.

Guidance in Defining Core Has Been Broad and Additional Guidance Sought

DOD guidance to define a core function under the new program emphasis has been broad and, as a result, there are multiple and somewhat ambiguous definitions of "core," leading some DOD components to seek additional guidance. The term "core" has had different meanings depending upon the context in which it was used. Moreover, there has been and remains a significant amount of subjectivity in defining "core" as there has been with the term "inherently governmental." Recognizing the potential difficulty in applying the core competency-based approach, the Senior Executive Council provided several definitions of "core" as well as criteria for determining core competencies in its April 2002 implementing memo.

¹⁶ William M. Hix et al., *Rethinking Governance of the Army's Arsenals and Ammunition Plants*, RAND (Santa Monica, Calif., 2003).

As a starting point for its core-competency emphasis, a work group commissioned by the Senior Executive Council chose a business concept outlined in a 1990 *Harvard Business Review* article.¹⁷ The article provides several examples of corporations that identified their core competencies, helping them to become more successful than their competitors. The authors likened a diversified corporation to a business tree. For example, the trunk and major limbs are core products; the smaller branches are business units. While admitting this concept is difficult to apply to DOD, the Senior Executive Council nonetheless translated that business tree to a military application—the core services were described as the set of activities that actually contribute to the value of the end product (land, sea, and air operations), the business units were the units of a component command, the end products were military effects, and the customer was the combatant commander employing forces and resources.

In adapting the definition of “core” from the *Harvard Business Review* article to the DOD environment, the Senior Executive Council defined core as “A complex harmonization of individual technologies and ‘production’ (employment, delivery) skills that create unique military capabilities valued by the force employing [commander in chief]!” Several additional definitions were provided in the Council’s April 2002 memo to help clarify the reader’s understanding of the definition (see app. III). According to the memo, however, there are three themes common to each definition: (1) the knowledge and experience acquired by people, (2) the discrete and finite set of technologies the people employ, and (3) the business objectives to be achieved. It stated that DOD’s business objective to be achieved is warfare.

The Senior Executive Council’s memo also provided some criteria for determining core competencies. According to the Council, a core competency

- has potential application to a wide variety of national security needs,
- provides a significant contribution to the combatant commander’s desired effect,
- would be difficult for competitors to imitate,
- provides the means to differentiate from competitors,
- crosses organizational boundaries within an enterprise,

¹⁷ C.K. Prahalad and Gary Hamel, “The Core Competence of the Corporation,” *Harvard Business Review*, May-June 1990.

-
- is a direct contributor to the perceived value of the service,
 - does not diminish with use,
 - deploys with forces, and
 - provides training and experience that forms the basis of ethos and culture.

The memo also noted that these criteria are not “pass/fail” criteria. That is, some criteria may help to identify core competencies while others may not, and that these criteria are based on business concepts that have been adapted to the military domain. Furthermore, the memo stressed the importance of senior leadership judgment in identifying core competencies.

According to various officials, the lack of a clear and concise definition of the terms related to the core concept initially made it difficult for the Army and Air Force to apply the core concept to their functions. Both services have subsequently supplemented the Senior Executive Council definitions with their own internal documents and specific guidance, which are discussed in the next sections.¹⁸ That notwithstanding, the definition of core remains somewhat broad in nature and subjective, and will likely remain so in the future. The Navy and Marine Corps have only recently begun their efforts to identify core functions, and have not yet sought to develop additional guidance. A Defense Logistics Agency official told us they did not use any additional guidance.

DOD and service officials told us that while the concepts “inherently governmental” and “core” are similar and may overlap, they may not always be the same. Specifically, not all inherently governmental functions would be considered core, nor would all core functions be designated inherently governmental. For example, according to Army analysis, many civil functions performed by the Army Corps of Engineers, such as wetlands regulation and eminent domain authority, are inherently governmental, but they are not core to the Army’s mission. Conversely, we were told, certain medical services provided by doctors and nurses in the operating forces are not deemed to be inherently governmental; however, these services are considered to be core to the Army’s mission.

¹⁸ For example, the Army used its Field Manual No. 1, *The Army*, to provide additional guidance. The Army describes this as its capstone doctrinal manual, which, among other things, delineates the Army’s purpose, roles, and functions.

Progress on Identifying Core Functions Has Varied

The Senior Executive Council directed the services and defense agencies to inventory their organizations and identify their core functions, but only the Army and Air Force have made much progress in doing so. The Army took the lead in pursuing this initiative and has recently completed an effort to identify its core and non-core functions. The Air Force also initiated a core competency review, which focused predominately on military positions. The Navy and Marine Corps are in the early stages of assessing their core functions. The Defense Logistics Agency broadly identified its core and non-core competencies, but has not identified specific positions as core or non-core.

Army Efforts Recently Completed

The Army has recently completed an effort to identify its core and non-core functions for over 200,000 positions. Initially, the Army's Third Wave program assumed that all commercial positions were non-core and thus potential candidates for performance by the private sector or other government agencies. However, it permitted its components to request exemption from the non-core designation and, as a result, considered appeals involving numerous functional areas. Some were sustained while others were not. The results of this process differed somewhat from the Army's initial expectations that all non-core functions could be subject to competition or alternate sourcing, and the number of positions likely to be subject to alternate sourcing is not yet clear.

In permitting its components to present a case for functions to be exempt from the non-core designation, the Army provided specific guidance on the submission of exemption requests and the factors to be used to evaluate those requests. An exemption request needed to provide a compelling case that a non-core designation could pose substantial and specific risks to core warfighting missions or would violate a statutory requirement affecting a function. The Army components submitted 24 requests for exemption from non-core designation, each representing one or more broad functional areas. For example, these areas included civilian personnel, installation management, law enforcement and criminal investigations, and both military and civilian career progression activities.

The Army's authority for reviewing and approving core-competency exemption requests was the Assistant Secretary of the Army for Manpower and Reserve Affairs. In evaluating the exemption requests, the Office of Manpower and Reserve Affairs supplemented the Senior Executive Council's definitions of core with six core competencies identified by the Army in Army Field Manual 1 and other documents. The six competencies were depicted as:

- Shape the security environment—provide a military presence.
- Prompt response—provide a broad range of land power options to shape the security environment and respond to natural or manmade crises worldwide.
- Forcible entry operations—provide access to contested areas worldwide.
- Mobilize the Army—provide the means to confront unforeseen challenges and ensure America's security.
- Sustained land dominance—provide capabilities to control land and people across various types of conflicts.
- Support civil authorities—provide support to civil authorities in domestic and international contingencies, including homeland security.

After evaluating the appeals, the Army, in some instances, sustained the exemption requests, while, in other instances, they were denied. However, in many instances a mixed decision was rendered regarding individual functions within a broad functional area. This is illustrated by the Army's determination of core competencies for two functions—medical services and information resources.

In making its decisions, Army officials determined that medical activities could be considered core in some circumstances and non-core in others. The Army also found that, in some cases, functions considered to be core—such as information resources—contained elements that were designated non-core.

The Army determined that many medical functions are core to the Army's mission even though they are not classified as inherently governmental. The Army recognizes that medical functions do not require unique military knowledge or skills or recent experience in the operating forces to be performed. However, for troops deployed in theater (i.e., a war zone), medical functions do need to be performed by in-house personnel because reliance on host nation contracting for medical support could place significant risks on the Army forces. The Army has determined that the in-theater medical mission is a critical element of the Army's ability to accomplish its core competencies. Even so, certain functions within the

medical area can be considered both core and non-core. For example, the optical fabrication function—which is the ability to produce eyewear (replacement spectacles and protective mask inserts)—is considered a core competency in support of the operational forces close to the point of need in the area of engagement. However, this same function performed in the United States is not considered to be a core competency, and the Army states that this function may be reviewed for divestiture or privatization.

Within the information resources function, the Army considers the management of information resources in a network-centric, knowledge-based workforce to be a core warfighting competency. This core competency includes information operations that support operating forces, and utilizes commercial technology adapted for military applications. Organizations and personnel performing functions that ensure command, control, and communications interoperability across Army, joint, interagency, and coalition forces are core functions and need to be kept in-house. However, other information resource functions—such as help-desk services—are deemed to be non-core and can be considered for possible outsourcing.

Army officials said they recognized that once the determination was made that a function was considered to be core or non-core to the Army's mission, the sourcing of the function would, in many instances, require additional analysis to determine the amount of core capability to be kept in-house and the risk the Army might face by sourcing the function. The types of risk to be considered in evaluating impacts upon a core mission are force management, operational, future challenges, and institutional.¹⁹ Additional factors must also be considered. For example, the Army determined that its casualty and mortuary affairs function is not a core mission, nor is it an inherently governmental function. However, national policy dictates that Army officials notify families of a casualty in person.

Overall, the Army found the results of its review were somewhat contrary to its, and the Senior Executive Council's, initial expectation that all

¹⁹ Force management risk includes the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing its many operations tasks. Operational risk concerns the ability to achieve military objectives in a near-term conflict or other contingency. Future challenges risk involves the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid- to long-term military challenges. Institutional risk entails the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the Defense establishment.

Air Force Efforts Focus on Military Positions

non-core functions should be subject to competition or alternative sourcing. As noted previously, the Army found the designation of “core” does not necessarily indicate military or government civilian performance is required or necessarily precludes competitive sourcing of the function. That is, a designation of “non-core” does not automatically mean that a function can, or should, be contracted out—other factors must also be considered. As a result, this has led to some uncertainty regarding how and to what extent the results of the Army’s core analyses will be used in sourcing decisions and this potentially has implications for other Defense components as well. While at this point, the Army is still deciding how to proceed with implementing the results of its core assessments, Army officials told us that the core decisions would be reflected in the Army’s 2003 FAIR Act inventory.

The Air Force focused its initial core competency review predominately on military positions. This was done because the Air Force wanted to identify functions performed by military personnel that might be realigned for civilian or contractor performance, thus permitting affected military personnel to be reassigned to operational areas where shortages of military personnel existed. All military positions were reviewed in terms of three main core competencies and six distinctive capabilities. The three institutional core competencies were depicted as:

- Developing Airmen (the heart of combat capability).
- Technology to Warfighting (the tools of combat capability).
- Integrating Operations (maximizing combat capability).

Six distinctive Air Force capabilities also considered were those related to:

- Precision engagement—the ability to locate the objective or target, provide responsive command and control, generate the desired effect, assess the level of success, and retain the flexibility to reengage.
- Rapid global mobility—the ability to rapidly and flexibly respond to the full spectrum of contingencies worldwide.
- Information superiority—the ability to collect, control, exploit and defend information while denying the adversary the same.
- Agile combat support—the ability to provide combat support in a responsive, deployable, and sustainable manner.
- Air and space superiority—the ability to establish control over the entirety of air and space, providing freedom from attack and freedom to attack.
- Global attack—the ability to find, fix, and attack targets anywhere on the globe.

Although the core competency review process did involve some subjective judgment, each position was classified into three basic categories—those (1) requiring military performance, (2) requiring government civilian performance, and (3) available for contractor consideration. As a result of this review, 17,800 military positions were identified for potential conversion to either government civilian or contractor civilian positions. Our prior work has identified various instances where personnel costs are generally less for civilian personnel than for military.²⁰ An additional 4,477 military positions were identified for possible future realignment through other reengineering efforts, such as adjusting the manpower requirements process and conducting a business case analysis for alternative installation support practices, for a total of 22,277 military positions. Because many of the functions reviewed involved both military and civilian personnel, an additional 8,900 Air Force civilian positions were identified for possible conversion to contractor performance. An Air Force official stated that the service hopes to do a more in-depth review on the civilian side in the future; however, at the moment, none is planned. The Air Force expects the number of positions that can be competed in its FAIR Act inventory will be increased as a result of this review.

In the near-term, as a direct result of the core function review, the Air Force has indicated it plans to outsource a significant portion of the workload of its Pentagon Communications Agency currently performed by over 400 military personnel. Although Air Force officials indicated the service has the resources to implement this action, other efforts may have to be postponed until the funds are available. To move military positions to operational warfighting positions, additional government civilian or contractor personnel would be needed to replace the military personnel. Air Force officials told us that moving the military personnel out of non-core functions is a high priority, but because of the high cost involved in adding funds to the operations and maintenance appropriation account to pay for replacement civilian or contractor

²⁰ See U.S. General Accounting Office, *Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing*, [GAO/NSIAD-97-86](#) (Washington, D.C.: Mar. 11, 1997); *DOD Force Mix Issues: Converting Some Support Officer Positions to Civilian Status Could Save Money*, [GAO/NSIAD-97-15](#) (Washington, D.C.: Oct. 23, 1996); and *DOD Force Mix Issues: Greater Reliance on Civilians in Support Roles Could Provide Significant Benefits*, [GAO/NSIAD-95-5](#) (Washington, D.C.: Oct. 19, 1994.)

positions, it is currently an unfunded priority.²¹ They recently estimated this additional cost to be about \$5 billion over the next 5 years. Moreover, in its internal budget planning documents for fiscal year 2004, the Air Force stated that its number one unfunded priority is funding (\$2.34 billion) for moving the initial 6,300 military positions out of non-core functions. As a result, it is not yet clear to what extent larger number of conversions would take place and the extent to which they might involve direct conversions or be done as part of public-private competitions using the A-76 process.

Other DOD Component Efforts Are Not as Advanced

As mentioned earlier, the Marine Corps has recently begun its effort to identify core functions and has convened a working group to determine how to proceed. The Secretary of the Navy tasked the Navy components to determine their core competencies on April 18, 2003, so this effort is still in its infancy. The Defense Logistics Agency has identified four core competencies—customer knowledge, integrated combat logistics solutions, rapid worldwide response, and single face to industry and customers. In addition, it identified 10 non-core competencies. These are: base operations; warehousing services; transportation services; document automation, printing and production services; marketing of unneeded materiel; computer application software; computer operations and database management support; cataloging; payroll services; and civilian personnel services. However, it has not determined which positions are considered to be core.

²¹ Military positions are funded out of the Military Personnel Appropriation accounts. With military personnel being shifted to other positions, this does not free up funds that could be used to increase funding for replacement personnel in the Operations and Maintenance Appropriation accounts.

Some Progress Made in Identifying Alternative Sourcing Arrangements, but the Extent to Which Alternatives Are Likely to Be Used Is Unclear

The range of alternatives to A-76 likely to be pursued under the core competency-based approach is not yet clear given limitations in the core analyses, but DOD has made some progress toward identifying and/or using some sourcing arrangements that are alternatives to A-76. Some were identified as part of an initiative to identify alternatives through the use of pilot projects, and a few others have been identified by the services as they have focused on the core initiative. At the same time, some DOD officials indicated that the use of some alternatives could be limited without special legislative authorities and/or repeal of various existing prohibitions. The use of alternative sourcing could also be affected by the emphasis on A-76 competitions and OMB's goals for the department.

Alternate Sourcing Approaches Identified through Pilot Projects and Other Initiatives

DOD has made some progress in identifying and using sourcing arrangements that are alternatives to A-76, including some as part of an initiative to identify alternatives through use of pilot projects, and a few others that have been identified by the services as they have focused on the core initiative. These projects are in various stages of implementation.

DOD's Senior Executive Council and Business Initiative Council²² asked the components to identify and submit at least one pilot or "pioneer" project to provide alternative sourcing methods for widespread implementation. Ten projects were approved by the Business Initiative Council and were then submitted to OMB for approval. OMB approved eight projects in August 2002. The department later withdrew two projects because the timing was not appropriate. The following table provides a listing of the 10 Pioneer Projects. (A description of the ongoing pioneer projects can be found in app. IV.)

²² The Business Initiative Council, an organization that reports directly to the Senior Executive Council, was established in 2001 to encourage the military services to explore new money-saving business practices to help offset funding requirements for transformation and other high-priority efforts. It is headed by the Under Secretary of Defense for Acquisition, Technology and Logistics, and its membership consists of the service secretaries, the Vice Chairman of the Joint Chiefs of Staff, the Under Secretary of Defense (Comptroller), and the Under Secretary of Defense for Personnel and Readiness.

Table 1: Pioneer Projects Submitted to OMB

Title	Proposed sourcing method	Approved by OMB	Disapproved by OMB	Withdrawn by DOD
Reengineer existing information technology structure	Streamlined A-76	x		
Metalworking machinery repair/rebuild services	Waiver to A-76	x		
Desk top management services	New requirement	x		
Groundbreaker II (information technology support)	New requirement			x
Municipal services partnership for base support	Direct service contract (legislation required)	x		
Randolph Air Force Base MEO (Most Efficient Organization) developed with an A-76 competition to follow at a later date	Reengineering		x	
Revitalize and reshape the workforce	Reengineering		x	
Ophthalmic services	Divestiture	x		
Brooks city-base partnership	Divestiture	x		
White House Communication Agency military manpower	Military conversion			x

Source: DOD.

The projects propose to use a variety of alternatives, including partnering and divestiture, and are in varying stages of implementation, as noted in appendix IV. For example, the Army previously developed a partnership with the city of Monterey, California, to provide municipal services needed for the operation of DOD assets in Monterey County. Because of the success of this project, the Army submitted legislation to Congress that would allow contracting for municipal services defense-wide.²³ In another example, the Navy has identified optical (eyewear) fabrication as a potential candidate for divestiture, because that service is readily available in the private sector. However, this project is still in the conceptual phase and no decision will be made until a thorough analysis has been completed to determine the most appropriate sourcing method.

DOD was required to go to OMB for approval of these Pioneer Projects to determine if they would count toward the competitive sourcing goals set by OMB. The criteria for OMB approval required that projects involve an

²³ This legislative request was included as part of the department's request for legislation submitted to Congress for consideration as part of the fiscal year 2004 Defense Authorization bill. As of May 2003, this proposal was not included in either the House or Senate approved versions of the bill.

element of divestiture, competition, or the transfer of responsibility to other private or public sector performers. The two pilot Pioneer Projects that were not approved by OMB had proposed using reengineering or the development of most efficient organizations as an alternative to A-76 competition. These two projects were not approved because they neither involved the divestiture of responsibility for performing the function nor contained a near-term element of competition. DOD officials withdrew two others because they believed timing was not appropriate for those actions.

In responding to OMB's draft of its most recent revision to *Circular A-76*,²⁴ we stressed the importance of considering alternative approaches to accomplishing agency missions. Such approaches encompass a wide range of options, including restructuring, privatizing, transferring functions to state and local governments, terminating obsolete functions, and creating public-private partnerships. Given that these options can result in improved efficiency and enhanced performance, we recommended at that time that OMB continue to encourage agencies to consider these and other alternatives to A-76 competition. The revised circular allows agencies to deviate from certain requirements of the circular with prior written approval from OMB. For example, agencies are permitted to explore innovative alternatives, including public-private partnerships, public-public partnerships, and high performing organizations, with prior written approval from OMB for a specific competition.

In addition to these Pioneer Projects, some other initiatives to use an alternate sourcing approach have emerged within the military services. For example, the department plans to transfer its personnel security investigations function, now performed by the Defense Security Service to the Office of Personnel Management. In another instance, the Secretary of the Army recently determined that the long-term incarceration of prisoners was not a core competency of the Army. The department is in the process of finalizing plans for transferring its military-dedicated prison at Fort Leavenworth, Kansas,²⁵ to the Federal Bureau of Prisons. Although exact savings from this transfer have not yet been determined, an Army official stated that transferring the facility to the Bureau of Prisons would

²⁴ U.S. General Accounting Office, *Proposed Revisions to OMB Circular A-76*, [GAO-03-391R](#) (Washington, D.C.: Jan. 16, 2003).

²⁵ This prison houses level III prisoners from each of the military services. This level has been defined as those prisoners with a sentence of 7 years or more.

free up almost 500 military positions. In addition, Army officials believe it will allow for efficiency gains because the cost to incarcerate a prisoner per year by the Bureau of Prisons is expected to be less than half what it costs the Army to do so.

Potential Limitations on Use of Alternatives Exist

The services have been charged by the Senior Executive Council to identify and use sourcing arrangement alternatives to A-76 for their non-core functions; however, DOD and the services have encountered potential limitations to their efforts. These include legislative impediments and the requirement to support the President's Management Agenda to meet the competitive sourcing goals of OMB.

Legislation Can Limit Use of Alternatives

Various officials in the Office of the Secretary of Defense and the services expressed uncertainty over the extent to which existing legislative prohibitions or the lack of legislative authority could limit the pursuit of some alternatives. They noted existing prohibitions such as those contained in 10 U.S.C. § 2461,²⁶ and section 8014²⁷ of the annual appropriations acts that require public-private competition in all but a few circumstances. In citing areas where legislation might be needed, they noted that to complete the planned transfer of the personnel security investigative functions to the Office of Personnel Management, DOD recently submitted a legislative request to Congress seeking authority to do so as part of its legislative package known as the Defense Transformation for the 21st Century Act of 2003. Specifically, the legislation would allow DOD to transfer this non-core function to the Office of Personnel Management, which would allow for consolidation of requests for security clearances under this agency. Alternatively, Army officials told us that in the initiative to transfer its Fort Leavenworth prison to the Federal Bureau of Prisons, they did not believe special authorizing legislation is required. They believe DOD is not required, by

²⁶ Section 2461 requires, among other things, that before any commercial or industrial type function that as of October 1, 1980, was being performed by DOD civilian employees is changed to private sector performance, DOD must report to the Congress, conduct an analysis showing that private-sector performance will result in a savings to the government over the life of the contract, and certify that the analysis is available for examination.

²⁷ This provision requires that DOD certify its most efficient and cost-effective organization analysis to congressional committees before converting any activity performed by more than 10 DOD civilian employees to contractor performance.

Supporting the President's
Management Agenda May
Limit Use of Alternatives

statute,²⁸ to maintain prisoners in DOD facilities and may use any facility under the control of the U.S. government.

DOD officials have also requested some legislative relief to implement some initiatives that they have already identified. For example, DOD has requested the repeal of 10 U.S.C. § 2465²⁹ to allow the department to bid and compete contracts for security guard services and for the performance of firefighting functions at military installations in the continental United States.³⁰ DOD believes such contracts would be cost-effective and provide a needed flexibility in exigent situations, such as September 11, 2001. In another case, DOD has sought legislative authority to contract directly with local governments for municipal services based on the success of its Pioneer Project in Monterey, California. Doing so would allow DOD components to use this type of arrangement at other locations, as appropriate.

The department, in attempting to meet OMB's goals to conduct A-76 competitions, is unlikely to pursue alternative sourcing on a large scale. One of the five governmentwide initiatives in the *President's Management Agenda* is competitive sourcing. Under this initiative, OMB has directed agencies to compete 15 percent of positions deemed commercial in their fiscal year 2000 FAIR Act inventories by the end of fiscal year 2003, with the ultimate goal of 50 percent by the end of fiscal year 2008. For DOD, this represents approximately 226,000 positions. Although OMB has recently allowed some alternative sourcing methods that contain an element of competition to be counted toward meeting these goals, DOD expects that the vast majority of positions will be competed under A-76

²⁸ 10 U.S.C. § 858 (Sentences of confinement adjudged by a court-martial may be carried into execution in any facility under control of the United States). 10 U.S.C. § 951 (The military may but is not required to provide for the establishment of correctional facilities).

²⁹ Also included in the Defense Transformation for the 21st Century Act of 2003. Generally, 10 U.S.C. § 2465 prohibits DOD from contracting for firefighters and security guards except when (1) the contract is to be performed overseas, (2) when the contract is to be performed on government-owned but privately operated installations, or (3) when the contract (or renewal of the contract) is for the performance of a function already under contract as of September 24, 1983. In addition, there is temporary exception for contracts for security services with local governments with respect to closing bases.

³⁰ We have previously reported that the best way to determine if savings can be achieved from contracting firefighter and security guard services is by completing an A-76 study at each base where these services are being considered for conversion to contract. See U.S. General Accounting Office, *Base Operations: Contracting for Firefighters and Security Guards*, [GAO/NSIAD-97-200BR](#) (Washington, D.C.: Sept. 12, 1997).

competitions. Positions competed under A-76, of course, would not be available for consideration for alternative sourcing methods.

While the department initially placed a priority on identifying alternative sourcing arrangements, the most recent department guidance is less clear regarding the priority of alternate sourcing arrangements over A-76 competitions. The Business Initiative Council recently directed the defense components to submit the status of their core competency reviews and detailed competitive sourcing plans—including both A-76 and alternatives to A-76—by June 2, 2003. The Business Executive Council will review these plans in preparation for the fiscal 2005-2009 preliminary budget review. Details on these plans were not available at the time we completed our review.

DOD Expected to Maintain an Active A-76 Competitive Sourcing Program

Limited progress in implementing the core competency-based approach, coupled with OMB's emphasis on the use of A-76 in conjunction with the President's Management Agenda, suggest that the use of A-76 may remain a key vehicle for sourcing decisions involving non-core and non-inherently governmental functions. Nonetheless, despite its experience in implementing competitive sourcing, the department faces a number of challenges related to its A-76 program.

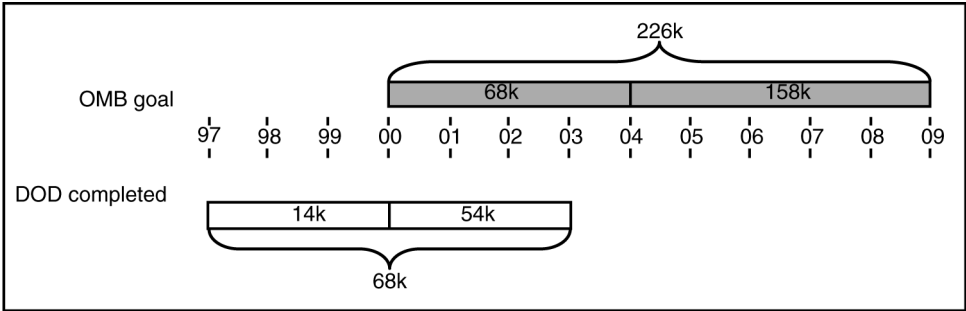
OMB Has Established Ambitious A-76 Program Goals for DOD

OMB has established ambitious A-76 competitive sourcing program goals for the department to meet in both the short term and the long term, even while DOD is focusing on its core competency approach. The department's A-76 goals for the number of positions to be studied and the time frames for accomplishing those studies have varied over time, reaching a high in 1999 of studying 229,000 positions between 1997 and 2005. However, DOD experienced difficulty in identifying eligible functions for study and consequently, in 2001, reduced the goal to study 160,000 positions between 1997 and 2007. Recently, DOD's study goals have increased because of OMB's competitive sourcing goals. To meet OMB's goal of directly converting or studying 15 percent of the 453,000 commercial activity positions identified in the 2000 FAIR Act inventories by the end of fiscal year 2003, DOD would need to complete A-76 studies on about 68,000 positions between fiscal year 2000 and the end of fiscal year 2003.³¹ Then, to meet the larger goal of 50 percent, DOD would need to study an

³¹ As of June 1, 2003, DOD reported that it has met OMB's 15-percent goal.

additional 158,000 positions in the out years (fiscal years 2004-08). This represents a total of 226,000 positions to be studied, far more than DOD has been able to complete in a similar time period. Figure 1 illustrates OMB's goals for DOD compared to what DOD has completed at the end of fiscal year 2002.

Figure 1: DOD's A-76 Positions Completed and OMB's Goal, Fiscal Years 1997-2008



Source: GAO analysis of data provided by DOD.

The strength of DOD's A-76 program is shown in the number of positions announced or planned for study, those completed, and those still ongoing. Table 2 provides data on the number of positions the department has announced for study under its A-76 program since its resurgence in 1997.

Table 2: DOD Positions Announced for Study under A-76, by Component, Fiscal Years 1997-2002

Component	Fiscal year						Total
	1997	1998	1999	2000	2001	2002	
Army	10,878	14,430	8,757	381	517	426	35,389
Navy	11,460	10,415	10,470	6,445	5,273	2,516	46,579
Air Force	5,674	8,442	8,161	4,124	1,553	904	28,858
Marine Corps	0	0	4,324	704	0	13	5,041
Defense agencies	978	2,220	3,953	533	528	3,442	11,654
Total	28,990	35,507	35,665	12,187	7,871	7,301	127,521

Source: DOD's Commercial Activities Management Information System (CAMIS) as of April 2003.

The number of positions planned for study by year for each component for fiscal years 2003-08 was not available, but it would seem to require much greater numbers of announcements per year than were made in recent years. The services are currently determining the number of positions they plan to study in future years, including the number of military and civilian

positions to be studied, and are required to submit preliminary data to the Office of the Secretary of Defense by June 2, 2003. However, as noted, the total number of positions that would be required to be studied for fiscal years 2004-08 to meet OMB's target for DOD is a total of 158,000 positions.

Table 3 shows the number of positions completed in A-76 studies since 1997. Of the total, 48,921 were civilian positions and 19,336 were military positions.

Table 3: Number of Positions for Which A-76 Studies Have Been Completed, by Component, Fiscal Years 1997-2002

Component	Fiscal year						Total
	1997	1998	1999	2000	2001	2002	
Army	26	129	691	1,538	7,534	10,423	20,341
Navy	82	234	2,936	4,214	5,323	2,382	15,171
Air Force	1,838	3,930	2,993	5,915	6,352	4,450	25,478
Marine Corps	0	0	0	41	551	1,214	1,806
Defense agencies	306	894	361	1,400	1,008	1,492	5,461
Total	2,252	5,187	6,981	13,108	20,768	19,961	68,257

Source: DOD Commercial Activities Management Information System data, as of March 2003.

Table 4 shows the number of positions being reviewed in ongoing A-76 studies. Of the total, 23,766 are civilian positions and the remaining 2,622 are military positions.

Table 4: Number of Positions for Which A-76 Studies Are Ongoing, by Component and Year When Study Was Announced, Fiscal Years 1999-2003

Component	Fiscal year					Total
	1999	2000	2001	2002	2003	
Army	1,605	368	277	417	0	2,667
Navy	2,353	4,622	4,118	2,509	92	13,694
Air Force	1,241	264	321	876	156	2,858
Marine Corps	45	489	0	13	1,041	1,588
Defense agencies	1,448	506	3,046	581	0	5,581
Total	6,692	6,249	7,762	4,396	1,289	26,388

Source: DOD Commercial Activities Management Information System data, as of April 2003.

As shown in table 3 above, DOD had already studied over 68,000 positions through fiscal year 2002, although OMB did not count approximately 14,000 positions contained in A-76 studies completed during fiscal years 1997-99 toward the 15-percent goal because the positions studied were

not derived from DOD's 2000 FAIR Act inventory. Nonetheless, OMB permitted use of nearly 54,000 of the positions for which DOD subsequently completed studies, leaving the department approximately 14,000 positions to study by the end of fiscal year 2003. DOD recently reported that it has met its 15-percent goal by completing competitions in excess of 71,000 positions between October 1, 1999, through June 1, 2003.

DOD hopes to reach agreement with OMB to meet its additional 158,000-position study requirement through a combination of A-76 studies and alternatives to A-76, and change the period of study from fiscal years 2004-08 to fiscal years 2005-09. Regardless, this longer-term goal could be a challenge, requiring completion of a significantly larger number of positions for study than has actually been completed in similar periods in the past. For example, between fiscal years 1997 and 2002, DOD completed competition studies for about 68,000 positions. Under the new goals, DOD would be required to complete studies involving 158,000 positions during a 5-year period between fiscal years 2004-08. This is more than double what DOD has been able to complete in the past during a similar time frame.

DOD Faces Other Challenges in Meeting A-76 Goals

In addition to size of effort required to meet OMB's out-year study goals, DOD faces a number of challenges in meeting OMB's A-76 program goals. As we have tracked DOD's progress in implementing its A-76 program since the mid- to late-1990s, we have identified various challenges and concerns that have surrounded the program.³² We believe those challenges and concerns are still relevant to the department's current A-76 program. They include (1) the time required to complete the studies, (2) the cost and other resources required to conduct and implement the studies, and (3) the selection and grouping of positions to compete.

In addition, as noted earlier, the Army's core competency review has shown that the designation of "core" does not necessarily mean that in-house employees should perform a function, nor does the designation of "non-core" mean a function should necessarily be considered for alternative sourcing or A-76 competitions. This may cause further

³² U.S. General Accounting Office, *DOD Competitive Sourcing: Some Progress, but Continuing Challenges Remain in Meeting Program Goals*, [GAO/NSIAD-00-106](#) (Washington, D.C.: Aug. 8, 2000); and *DOD Competitive Sourcing: Questions About Goals, Pace, and Risk of Key Reform Initiatives*, [GAO/NSIAD-99-46](#) (Washington, D.C.: Feb. 22, 1999).

difficulties in selecting and grouping functions for A-76 reviews or other sourcing alternatives.

OMB's revised A-76 circular states that standard competitions³³ shall not exceed 12 months from public announcement (start date) to performance decision (end date). Under certain conditions, a time limit waiver of no more than 6 months can be granted. The revised circular also states that agencies shall complete certain preliminary planning—such as scope, baseline costs, and schedule—before public announcement. Even so DOD's studies have historically taken significantly longer than 12-18 months. DOD's most recent data indicate that the studies take on average 20 months for single-function studies and 35 months for multifunction studies. It is not clear how much of this time was needed for planning that will now be outside the revised circular's study time frame.

Once DOD components found that the studies were taking longer than initially projected, they realized that a greater investment of resources would be needed than originally planned to conduct the studies. We previously reported that the President's 2001 budget showed a wide range of projected study costs, from about \$1,300 per position studied in the Army to about \$3,700 in the Navy.³⁴ DOD is now estimating costs at \$3,000 per position for new studies beginning in fiscal year 2004. However, the much larger number of studies required to be completed in the out-years to meet OMB's study goals could require DOD components to devote much greater total resources to this effort than in the past.

In addition, DOD components, particularly the Air Force, are attempting to shift military personnel away from commercial type functions to those more directly related to warfighting. As noted above, because these functions are not being eliminated, new operations and maintenance account funds will have to be provided to pay for the additional civilians or contractors that perform the function(s) currently being performed by uniformed personnel. As previously mentioned in the report, the Air Force alone has recently estimated this additional cost to be about \$5 billion over the next 5 years.

³³ Streamlined competitions allow for an abbreviated source selection for 65 or fewer civilian positions and/or any number of military personnel. Streamlined competitions are to be completed within 90 days, with a possible extension of no more than 45 days.

³⁴ [GAO/NSIAD-00-106](#).

This is an issue other services have also encountered in the past and will in the future as they plan to shift military personnel away from commercial positions into warfighting positions, either as a result of its core assessment or as part of its A-76 studies. We have not seen precise, reliable figures on the extent to which these conversions may occur, and the extent to which all affected military personnel would be needed in warfighting positions. In the past we identified instances where service components were required to absorb these costs without additional resources. We recommended in our 2000 report that the Secretary of Defense take steps to ensure that the services increase funding for operation and maintenance accounts, as necessary, to fund the civilian and contractor personnel replacing military positions that have been transferred to meet other needs.³⁵ The department acknowledged that this practice would require the services to program additional funding for operation and maintenance accounts, viewing this as a service investment decision. However, given the increased emphasis the department has placed on moving the military from commercial functions to warfare, officials from the Army and the Air Force have expressed concern that there were not adequate funds to replace the military with civilian or contractor personnel once their positions have been competed or transferred. This can have the effect of either limiting the number of conversions that can be made or requiring Defense components to absorb the costs within their existing budgets, creating limitations in other program areas.

As we have previously reported, selecting and grouping functions and positions to compete can also be difficult. Some functions may be spread across different geographic locations or may fulfill a roll that blurs the distinction between “commercial” and “inherently governmental,” thus preventing the packaging of some commercial positions into suitable groups for competition. In addition, as previously noted, DOD excluded certain commercial functions in its FAIR Act inventories from competition. DOD’s fiscal year 2002 FAIR Act inventory exempted 171,698 positions from competition because of statutory, national security, or operational concerns. Further, as we have previously reported, most services have already faced growing difficulties in finding enough study candidates to meet their A-76 study goals.³⁶ Finally, use of alternatives

³⁵ [GAO/NSIAD-00-106](#).

³⁶ [GAO/NSIAD-00-106](#).

under the core-competency approach could also limit positions available for A-76 study.

Conclusions

Progress varies among DOD components in assessing core competencies and identifying and pursuing alternative sourcing strategies. Even so, some limitations have been identified which indicate that, contrary to some initial expectations, the determination of whether a function is core by itself will not automatically lead to a sourcing decision because, as the Army has discovered, other factors can also affect sourcing decisions. Clarification of the department's expectations for sourcing decisions is needed along with additional guidance on other factors that may need to be considered in sourcing decisions. Otherwise, the components may be left with unrealistic expectations on making sourcing decisions or they may make changes in sourcing that later prove to be problematic.

Under the core-competency process, the Air Force identified large numbers of military personnel who could be reassigned to meet other military requirements and be replaced by civilian or contractor personnel who may be a more economical alternative. However, to accomplish this reassignment, Air Force officials stated that it would need to find funds for replacement personnel out of operations and maintenance accounts. This is indicative of what other services are likely to face in seeking to accomplish such conversions—the need for additional funding in operations and maintenance accounts to support these conversions. Such conversions may be a more cost-effective alternative than simply increasing military end-strength where shortages exist in military positions. However, decisions to replace military personnel with civilians or contractors without identifying sources for increases in operations and maintenance funds to support those decisions could stress the ability of the operations and maintenance account to meet other pressing needs.

Recommendations

We recommend that the Secretary of Defense, through the Senior Executive Council, clarify its expectations for DOD components in making sourcing decisions based on core competency assessment results and provide additional guidance identifying the range of additional factors to be considered once the determination is made that a function is not considered core.

We also recommend that the Secretary of Defense require DOD components to ensure that decisions to convert functions performed by military personnel to performance by civilians or contractors are

predicated on having clearly identified sources of funding to support those decisions.

Agency Comments and Our Evaluation

The Principal Assistant Deputy Under Secretary of Defense (Installations and Environment) provided written comments on a draft of this report. The department generally concurred with our recommendations. With respect to our first recommendation, the department agreed that, in addition to the determination of core competency, there are additional steps necessary to making effective sourcing decisions. However, the response did not indicate what specific guidance, if any, would be provided to clarify and assist the components in making sourcing determinations. Instead, the department suggested that core assessments would be used as input to the Inherently Governmental Commercial Activities Inventory and that the department's guidance on how to prepare these inventories will be continually refined to help the sourcing decision process. To the extent the department continues to emphasize core competency assessments and alternatives to A-76 competitions in making sourcing decisions, we still believe that additional guidance is needed to assist components on factors other than the designation of core or non-core that need to be considered when making a sourcing decision.

With respect to the second recommendation, the department agreed that the identification of adequate resources is a critical factor in meeting its competitive sourcing goals and, consequently, the response ensures that they will be properly funded. The department also provided a number of technical comments, which we incorporated into the report, where appropriate. The department's comments are reprinted in their entirety in appendix V.

Scope and Methodology

As requested by the Ranking Minority Member of the House Committee on Armed Services, Subcommittee on Readiness, we reviewed DOD's plans for sourcing non-core functions and the effect this may have on its A-76 program. Specifically, the objectives of this report were to assess (1) the department's progress in assessing its core functions as a basis for sourcing decisions, (2) the plans and progress DOD has made in identifying and implementing alternatives to A-76, and (3) the current status of DOD's A-76 program.

To evaluate the department's progress in assessing its core functions as a basis for sourcing decisions, we met with responsible officials from the Senior Executive Council, the Business Initiative Council, and the Office of the Secretary of Defense to identify plans and guidance for this

initiative. We also met with officials from the Army, the Air Force, the Navy, the Marine Corps, and the Defense Logistics Agency to identify their implementation plans, guidance, and analyzed available data to assess progress being made. Our work was conducted in the Washington, D.C., metropolitan area.

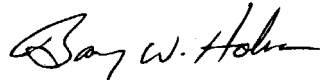
To evaluate the plans and progress DOD has made in identifying and implementing alternatives to A-76, we met with officials in organizations identified above and obtained and analyzed relevant documentation pertaining to alternatives identified. Additionally, we spoke with representatives from the Defense Contract Management Agency and the Defense Finance and Accounting Service about their Pioneer projects.

Likewise, to assess the status of DOD's A-76 program, we met with cognizant officials within DOD and its key components to update information we had previously obtained in other recent studies in this area concerning studies planned and completed and we updated information we had previously obtained regarding challenges associated with this program. Data on the number of A-76 competitions used in this report were based on DOD's Commercial Activities Management Information System (CAMIS) Web-based system. Because the numbers change daily, what we reported are the precise figures in the database at the specified point in time. We have previously identified limitations in accuracy and completeness of data included in this system, which limit the precision of information included in the system. Since then, the department has made changes to improve the accuracy of data in the system, and the database remains the principal source of aggregate information on studies underway and completed. However, we did not audit the accuracy of the numbers in the database. We conducted our review from October 2002 to May 2003 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate congressional committees; the Secretary of Defense; the Secretaries of the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have questions regarding this report, please contact me on (202) 512-8412 or holmanb@gao.gov. Other contacts and key contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Barry W. Holman". The signature is fluid and cursive, with the first name "Barry" being more prominent.

Barry W. Holman, Director
Defense Capabilities and Management

Appendix I: Alternatives to A-76 for Sourcing Non-Core Competencies

In its April 2002 memo, the Senior Executive Council noted that “there are a number of imaginative alternatives to DOD ownership of Non-Core competencies.” The memo provided detailed information on six specific alternatives—employee stock ownership plans, transitional benefit corporations, negotiation with private sector, city-base partnership, strategic partnering, and quasi-government corporations. Following is a description of the concept, an example of usage within the government, and recommended Internet sites for each alternative, based on the Senior Executive Council memo.

Employee Stock Ownership Plans (ESOP)

Concept: Mechanism used to spin off existing government activities to form an employee-owned company.

Description: The ESOP gives federal workers the ability to control their own destiny and obtain a stake in the successful outcome of a new business. ESOP is a contribution benefit plan that buys and holds company stock. Shares in the trust are allocated to individual employee accounts. While many privatizations result in layoffs and disruptions, ESOPs save jobs, retain critical skills, and provide seamless customer service to federal agencies.

Where Used Previously: U.S. Investigative Services (1995)

Internet Sites: <http://www.nceo.org/esops/index.html> and <http://americancapitalonline.com/datacenter/article.aspArticleID145.html>

Transitional Benefit Corporations (TBC)

Concept: Umbrella organization created to facilitate smooth transition of government employees.

Description: The TBC is designed to transition employees to the private sector while maintaining their federal benefits. Normally, a transition period is established where the government continues to pay for the benefits and then the new private company will eventually pay for those benefits back through the federal government. In addition, the TBC can contract with the private sector and partner with other governmental, private sector, educational or not-for-profit entities. It maintains core capabilities, preserves expertise of key personnel, finds a “soft landing” for underutilized workers, creates business environment for new growth, and provides a new business model for the government.

Where Used Previously: Department of Energy

Internet Site: <http://www.reedsmith.com/db30/cgi-bin/pubs/a76costs.pdf>

Negotiation with Private Sector (i.e., transfer workforce to the private sector as part of a contract negotiation)

Concept: Negotiated transfer of government workforce to a private company.

Description: Negotiate with the private sector in the outsourcing of a government function to the private sector. However, the government negotiates to have the workers who performed the function be hired by the contractor. The goal is to get the employees comparable pay, at the same location (for an agreed upon minimum time period), and a matched retirement plan. It offers stability that a normal A-76 cost comparison study does not provide.

Where Used Previously: Army Logistics Data System Modernization with CSC Corporation

Internet Sites: <http://www.gcn.com/vol20/no6/news/3836-1.html> and <http://www.csc.com/newsandevents/news/720.shtml>

City-Base Partnership

Concept: Transforming a military installation to city-owned property with military, public, non-profit, and commercial tenants occupying and leasing facilities.

Description: City Base is transforming a former military installation to city-owned property with military, public, non-profit, and commercial tenants occupying and leasing facilities. The service conveys the installation to the city and then leases back the facilities needed for mission operations. The city may contract with a third party to manage and develop the property.

Where Used Previously: Brooks Air Force Base and the City of San Antonio, Texas. The Air Force created the Brooks City-Base Partnership with the city of San Antonio as a means to reduce Air Force base operating and personnel cost and to promote public-public and public-private partnerships. Special authorizing legislation in 1999 and 2000 allowed such partnership in which the Air Force transferred real property to San Antonio in July 2002 in exchange for a leaseback of facilities and for the city to provide municipal services such as fire protection and law

enforcement. Also, the Army has implemented a similar type of partnership with the city of Monterey, California.

Internet Site: <http://www.ci.sat.tx.us/edd/brooks/citybasedef.htm>

Strategic Partnering

Concept: Similar to negotiating with the private sector, this establishes a government-industry partnership and leverages the expertise of the commercial marketplace.

Description: Strategic partnering moves a function and employees away from the government. The function is not given to a private corporation but is “taken over” by the employees. However, the employees do not form a stand-alone corporation, but instead, a partnership with the private company. It is used when an organization has many of the necessary elements for operating as a private company, but does not have the complete framework necessary to operate as a stand-alone corporation (payroll, benefits programs, taxes, marketing, and business development). A strategic partnership allows the employees to partner with an entity that already has these systems and procedures in place. Such partnering arrangements could be made with a private firm, joint venture, or a non-profit organization.

Where Used Previously: National Security Agency (NSA)—CSC-led group with Logicon (Northrup Grumman) and dozens of “Alliance” contractors

Internet Site: <http://www.reedsmith.com/db30/cgi-bin/pubs/a76costs.pdf>

Quasi-Government Corporations

Concept: Publicly owned, common stock corporation, chartered by Congress and provided a marketplace niche in which to accomplish some public good. They can be monopolies (e.g., the U.S. Postal Service) or competitors (e.g., Fannie Mae and Freddie Mac).

Description: Quasi-government corporations are an alternative similar to the non-profit corporation. The principal difference is that it is established by a government agency in order to serve a governmental purpose, rather than being established by private individual firms. The employees are not federal civil servants and do not participate in the federal retirement or other federal employee benefit systems. The advantages are that they can operate more flexibly than a government agency and they are not required

to comply with all of the federal personnel rules and acquisition regulations.

Where Used Previously: Fannie Mae, Freddie Mac

Internet Sites: <http://www.reedsmith.com/db30/cgi-bin/pubs/a76costs.pdf> and <http://www.auditor.leg.state.mn.us/fyi19a7.htm>

Appendix II: Army's Plans for Transforming Its In-House Industrial Facilities

In 2002, the Army's "Third Wave" initiative received much public attention because of what Army officials have characterized as an unrelated, but parallel effort underway whereby RAND, under contract to the Army, was studying alternatives for rightsizing the Army's government-owned ammunition manufacturing facilities and two arsenals that manufacture ordnance materiel—facilities that overall had been recognized as having declining workloads, excess capacity, and high operating costs.

Although RAND had studied various options, such as privatization and creation of a federal government corporation, the Army decided in March 2003 not to pursue the options outlined in what was then a draft RAND report. Instead, in a March 24, 2003 memorandum to the Commanding General, U.S. Army Materiel Command (AMC), the Secretary of the Army directed the following actions to transform the Army owned portion of its defense industrial base to include ammunition facilities, manufacturing arsenals, and also its maintenance depots:

- AMC was directed to develop a written concept for consolidation, divestiture, or leasing, as appropriate, of the government-owned/government-operated and government-owned/contractor-operated ammunition facilities.
- AMC was directed to continue to work towards reducing government-owned and operated manufacturing arsenal plant capacity and develop internal efficiency measures for facilities responsible for ground-based systems.
- AMC was directed to use existing legal authority to form and maintain partnerships between government-owned and operated maintenance depots and the private sector, and implement initiatives to improve efficiencies, optimize utilization, and upgrade the core capabilities required to meet current and future requirements.

Appendix III: Senior Executive Council Definitions of Core Competency

In attempting to define core competency in a defense environment, the Senior Executive Council defined core as “A complex harmonization of individual technologies and ‘production’ (employment, delivery) skills that create unique military capabilities valued by the force employing CINC!” The Council provided the following additional definitions to help in the understanding of core:

- Proficiency in the coordination of human activity and employment of technology and technical systems to conduct military operations called for by a CINC.
- A complex integration of human knowledge and skills with the technologies of warfare to accomplish a military objective of value to a commander.
- It’s what we do better than anyone else to produce specific effects desired by a CINC.
- The essence of what we provide in world-class warfighting and related unique capabilities—through a synergistic combination of knowledge, technologies, and people—to produce desired effects for CINCs.
- The deep commitment of people, using technologies and delivering capabilities to meet a desired effect in support of national objectives.
- A synergistic employment of individual and organizational knowledge, technologies, and capabilities producing world-class services (military operations) to deliver a desired effect to a CINC.

Appendix IV: Pioneer Projects

In support of the Senior Executive and Business Initiative Councils' direction to identify alternative approaches to A-76 for selected non-core competencies, the services and Defense agencies identified 10 pilot "pioneer" projects. All 10 were approved by the Business Initiative Council and presented to the Office of Management and Budget. Eight of the projects were approved by OMB to be counted toward DOD's FAIR Act inventory goal. OMB endorsed the pioneer projects whose techniques were waivers to A-76, new requirements, direct service contract, and divestiture, but disapproved the projects that proposed reengineering as their technique. Subsequently, DOD withdrew 2 projects, leaving 6 pilot projects for implementation. A brief description of those projects and their current status is provided below.

Department of the Navy: Ophthalmic Services

Description: Optical fabrication involves eyewear component production and assembly and is performed at about 37 locations within and outside of the United States, employing personnel in the Departments of the Navy and Army. The Department of the Navy has the lead responsibility for this pioneer project and is now starting its analysis of this divestiture proposal. It anticipates that the analysis will take approximately 6 to 18 months to complete. A final decision regarding the optical fabrication divestiture will be made after the completion of the analysis.

Alternative: Divestiture

Positions Affected: Approximately 69 civilians and 300 military

Status: Conceptual Stage

Department of the Air Force: Brooks City-Base

Description: The Brooks City-Base Partnership involves a partnership between the Air Force and the city of San Antonio for which the Congress passed special authorizing legislation in 1999 and 2000. This divestiture was a way to reduce Air Force base operating and personnel cost and build public-public and public-private partnerships. As part of this effort, the Air Force transferred Brooks Air Force Base's real property to San Antonio in July 2002 in exchange for a leaseback of facilities and for the city to provide municipal services such as fire protection, law enforcement, custodial and landscaping. Also, as part of this partnering arrangement, the city of San Antonio will provide the Air Force a share of the revenues generated from the contracts and developments resulting from the land and facilities transferred.

Alternative: Divestiture

Positions Affected: Approximately 100 civilian and 40 military

Status: Ongoing.

Department of the Army:
Municipal Services
Partnership for Base
Support

Description: According to its current arrangement with the city of Monterey, California, the Department of the Army proposed the Municipal Services Partnership for Base Support as its pioneer project. The Army is seeking legislative authority for all components within the department to be able to contract directly with local governments for municipal services such as public works and utility.

Alternative: Direct Service Contract

Positions Affected: Approximately 500 civilian employees (depending upon the number of installations selected for this type of contract).

Status: Enabling legislation has been submitted to Congress for consideration as part of the fiscal year 2004 authorization process.

The Army is conducting business case analyses for additional installation selection in the event the legislation is approved. However, as of May 2003, this proposal was not included in either the House or Senate approved versions of the bill.

Defense Logistics Agency:
Metalworking Machinery
Repair/Rebuild Services

Description: The Defense Logistics Agency (DLA) is proposing that the repair and rebuilding of depot-level industrial plant equipment by in-house personnel at the Defense Supply Center Richmond's facility in Mechanicsburg, Pennsylvania, be subject to direct conversion through an A-76 waiver in accordance with the Office of Management and Budget *Circular A-76's Revised Supplement Handbook*, part I, chapter I, section E.

Alternative: Waiver to A-76 Full Cost Comparison Study

Positions Affected: Approximately 82 civilians

Status: DOD assessed the applicability of OMB *Circular A-76* to this function and determined that the Mechanicsburg facility is a depot level maintenance and repair operation and is therefore exempt from OMB *Circular A-76*.

Defense Contract
Management Agency:
Reengineer Existing
Information Technology
Structure

Description: The Defense Contract Management Agency plans to use a streamlined A-76 approach to compete information technology functions such as desk side support, district offices' information technology operations, and automated application testing. The streamlined A-76 approach will allow the Defense Contract Management Agency to directly compare its costs for these types of functions with those of contractors on the General Services Administration's schedules. Also, it will shorten the time for completing the A-76 process.

Alternative: Streamlined A-76

Positions Affected: 450 positions reviewed, approximately 250 positions affected

Status: Streamlined A-76 effort is scheduled to start January 2004 with anticipated implementation of the most efficient organization and/or contracts by fiscal year 2005.

Defense Finance and
Accounting Service:
Desktop Management
Services

Description: The Defense Finance and Accounting Service (DFAS) is proposing to acquire computer management services from a commercial source. As part of this effort, DFAS plans to use a performance-based service contract to obtain desktop hardware, software, and support services.

Alternative: New Requirement

Positions Affected: Approximately 125 civilians

Status: DFAS notified Congress of this proposal and its plans to assess desktop management services. DFAS has completed its desktop management business case assessment and its announcement regarding that decision is imminent.

Appendix V: Comments from the Department of Defense



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

JUL 09 2003

Mr. Barry W. Holman
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Holman:

This is the Department of Defense (DoD) response to the GAO final report, GAO-03-818, "DEFENSE MANAGEMENT: DoD Faces Challenges Implementing Its Core Competency Approach and A-76 Competitions," dated May 30, 2003 (GAO Code-350292). A detailed response is enclosed.

Sincerely,

A handwritten signature in black ink, reading "Philip W. Grone".

Philip W. Grone
Principal Assistant Deputy Under Secretary of Defense
(Installations and Environment)

Enclosure



GAO-03-818/GAO CODE 350292

**“DEFENSE MANAGEMENT: DOD FACES CHALLENGES IN
IMPLEMENTING ITS CORE COMPETENCY APPROACH
AND A-76 COMPETITIONS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense, through the Senior Executive Council, clarify its expectations for DoD Components in making sourcing decisions based on core assessments and provide additional guidance identifying the range of additional factors to be considered once the determination is made that a function is not considered core. (Page 32/Draft Report)

DoD RESPONSE:

The Department recognizes that determination of core competencies is a meaningful step in the strategic planning process for achieving business efficiencies. However, as the report notes, there are additional steps to take to make effective sourcing decisions. The revised OMB Circular A-76 designates responsibility for determining availability of functions for competition to the DoD Competitive Sourcing Official. We expect core competency results to inform but not determine such coding. The Inherently Governmental Commercial Activities Inventory guidance is provided each November and has undergone considerable refinement. The dynamic nature of the sourcing decision process will require continued refinement in this year's guidance.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense require DoD Components to ensure that decisions to convert functions performed by military personnel to performance by civilians or contractors are predicted on having clearly identified sources of funding to support those decisions. (Page 32/Draft Report)

DoD RESPONSE:

We agree that identification of adequate resources is a critical factor in meeting the Department's target for the President's Management Agenda for Competitive Sourcing. We will ensure that these plans are properly funded.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Marilyn K. Wasleski (202) 512-8436

Acknowledgments

In addition to the names above, Debra McKinney, Nancy Lively, R.K. Wild, Daniel Kostecka, and Kenneth Patton also made significant contributions to this report.

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